



SaskWater



Saskatchewan Water Corporation

***Fourth Quarter Report
December 31, 2015***



SaskWater



Corporate Profile

SaskWater is committed to providing the highest level of service to its customers.

That promise is reflected in the corporation's Vision, Mission and Values.

Our Vision is to be the best at connecting water for life and growth, partnering for a better tomorrow.

Our Mission is to provide safe, reliable and sustainable water and wastewater services for Saskatchewan.

SaskWater is Saskatchewan's commercial Crown water utility, helping communities, First Nations and industry gain access to reliable and professional water and wastewater services.

SaskWater provides professional water and wastewater services to 63 communities, eight rural municipalities, 83 rural pipeline groups, 16 industrial and 236 commercial and end user customers. SaskWater serves more than 72,000 people in Saskatchewan

The corporation owns eight water treatment plants, three wastewater facilities, 39 pump stations, 140 kilometres of canal and 865 kilometres of pipeline. SaskWater also maintains customer-owned systems and provides operator training to 29 Saskatchewan First Nations communities.

SaskWater's Values

Integrity - We act ethically with respect, honesty, courtesy and fairness.

Professionalism - We provide quality, expertise and excellence in the delivery of our services, and we are accountable for our actions.

Teamwork - We promote cooperation and commitment to achieve our common goals.

Safety - We are committed to safety in all aspects of our operations.

Innovation - We pursue continuous improvement and innovative solutions.

Environment - We respect and support the environment and communities where we live and work.



Financial and Operating Highlights

	Three Months Ended December 31		Twelve Months Ended December	
	2015	2014	2015	2014
FINANCIAL HIGHLIGHTS (\$ thousands):				
Total revenue	\$ 11,715	\$ 11,219	\$ 48,005	\$ 43,853
Total expenses	10,686	10,599	40,168	38,365
Operating income	1,029	620	7,837	5,488
Net finance income (expense)	(156)	167	(1,412)	(3)
Net Income	\$ 873	\$ 787	\$ 6,425	\$ 5,485
Other comprehensive income (loss)	16	(18)	16	(18)
Total comprehensive income	\$ 889	\$ 769	\$ 6,441	\$ 5,467
Unrealized gains (losses) included in net finance amount	\$ 212	\$ 384	\$ (516)	\$ 1,229
Dividends	\$ 596	\$ -	\$ 1,739	\$ -
Debt Ratio			44.80%	45.00%
OPERATING HIGHLIGHTS (cubic meters):				
Non-potable water distributed	8,832,218	8,038,195	37,474,059	29,997,389
Potable water distributed	1,563,216	1,491,667	7,148,179	6,864,081



Management Discussion and Analysis

Introduction

Management's Discussion and Analysis (MD&A) highlights the primary factors that affected the financial results and operations of SaskWater for the twelve months ended December 31, 2015.

The MD&A should be read in conjunction with the unaudited condensed financial statements which have been prepared in accordance with International Accounting Standard (IAS) 34 – Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards (IFRS).

The SaskWater Board of Directors approved these interim financial statements at their meeting on February 25, 2016.

For additional information refer to SaskWater's 2014 Annual Report.

SaskWater has defined four measurable strategic objectives to guide the corporation: Customer Driven, Pursuing Excellence, Valuing Employees, and Succeeding Financially.

SaskWater employs provincially certified operators supported by a team of highly qualified technicians, technologists and professional engineers. In addition to operating its own systems, the company also provides certified operations and maintenance for water and wastewater systems.

SaskWater currently owns and operates regional wastewater treatment facilities at Nipawin and Fort Qu'Appelle and a municipal wastewater facility serving Pierceland.

SaskWater can address new demands for water and wastewater services from municipal customers through further:

- Development of service clusters for cost-effective delivery of services to customers

- Implementation of proven treatment plant technologies that exceed regulatory requirements and ensure quality control is maintained, and,

- By ensuring the company has the people and the training to meet anticipated demand for services.



Highlights

Change of year end

The Corporation has been directed to change its fiscal year end to March 31 to coincide with that of its owner. The first complete fiscal period will consist of fifteen (15) months ending March 31, 2016. Information included in the following discussion focuses on the first twelve (12) months of the current fiscal period as compared to the twelve (12) month period ending December 31, 2014.

Non-Potable Water

Non-potable water is primarily distributed to large industrial customers, especially in the potash mining sector. The change in volumes is largely related to market conditions within the potash sector. In 2015, potash sector customer volumes are 32% higher than 2014 with all potash customers increasing their consumptions for the year.

Conversely, potash related revenues are only 13% higher in 2015 over 2014 due to contractual arrangements with customers that ensure a minimum revenue stream. In addition, SaskWater began providing significant non-potable water volumes to the K+S Potash Canada Legacy mine in 2015.

Potable Water

Potable water is primarily supplied to municipal customers. Water volumes within municipalities tend to be more stable during the first and fourth quarters of the year. Seasonal fluctuations are more often noted during the second and third quarters and are influenced by temperature and precipitation and the resulting impact on such uses as lawn and garden watering. Volumes are 4% higher in 2015 than 2014.

Services

Service revenues include certified operation and maintenance where SaskWater provides operator expertise to run customer owned facilities; project management which is largely related to pre-construction engineering services while project proponents complete their feasibility analysis; operator training support to 29 First Nations; and northern project management which relates to engineering services to northern Saskatchewan communities primarily in conjunction with the Ministry of Government Relations.

Project management revenues were higher in 2015 than in 2014. This was due to more project proponents requiring our services in 2015. As work for these proponents is winding down, we expect to see work in this area slow over the coming year.

Expenses

Expenses have increased in 2015 over 2014 largely in response to the increased project management work. Increased volume of water distributed and rate increases from major suppliers, particularly urban water utilities that SaskWater purchases treated water from to redistribute to customers have also played a significant role in the year over year increase.



SaskWater



Net Finance Expense

Finance costs include debt servicing costs on funds borrowed to support investments less earnings on debt retirement funds that are set aside to retire capital market debts on their maturity. The debt retirement funds were \$16,348,000 at the end of 2015. Debt retirement funds are adjusted to reflect the change in market value of the underlying securities at each reporting period and resulted in a net loss for the year of \$516,000 for 2015 compared to net gains of \$1,229,000 for 2014.

The debt retirement funds are managed and actively traded by the Ministry of Finance.

During the first quarter of 2015 the Ministry experienced significant trading gains that were not experienced in 2014. All combined the trading gains, unrealized market gains and losses and debt servicing costs resulted in an overall net expense in 2015 of \$1,412,000 compared to an overall net expense of \$3,000 in 2014 from financing related activities.

Saskatchewan Water Corporation

Statement of Financial Position

(unaudited - thousands of dollars)

	as at December 31, 2015	as at December 31, 2014	Change
Assets			
Current assets			
Cash	\$ 8,292	\$ 11,747	\$ (3,455)
Trade and other receivables	9,636	29,215	(19,579)
Prepaid expenses and inventories	987	642	345
	18,915	41,604	(22,689)
Investment - debt retirement funds	16,348	16,989	(641)
Property, plant and equipment	295,369	257,790	37,579
	<u>\$ 330,632</u>	<u>\$ 316,383</u>	<u>\$ 14,249</u>
Liabilities and Province of Saskatchewan's Equity			
Current liabilities			
Trade and other payables	\$ 10,240	\$ 21,913	\$ (11,673)
Notes payable	23,019	20,128	2,891
Infrastructure deposits	7,229	19,099	(11,870)
Dividends payable	596	-	596
Current portion of deferred revenue	4,023	3,020	1,003
Current portion of long-term debt	2,400	2,407	(7)
	47,507	66,567	(19,060)
Deferred revenue	188,895	160,232	28,663
Provisions	1,557	1,636	(79)
Long-term debt	36,300	36,293	7
Employee benefits	470	454	16
	<u>274,729</u>	<u>265,182</u>	<u>9,547</u>
Province of Saskatchewan's Equity			
Equity advance	8,700	8,700	-
Retained earnings	47,203	42,501	4,701
	<u>55,903</u>	<u>51,201</u>	<u>4,701</u>
	<u>\$ 330,632</u>	<u>\$ 316,383</u>	<u>\$ 14,248</u>

Saskatchewan Water Corporation

Statement of Operations and Comprehensive Income

(unaudited - thousands of dollars)

	Three months ended December 31			Twelve months ended December 31		
	Actual	Actual	Variance	Actual	Actual	Variance
	2015	2014		2015	2014	
Revenue (Note 4)						
Water sales and treatment	\$ 8,899	\$ 8,083	\$ 816	\$ 36,707	\$ 33,574	\$ 3,133
Services	1,637	2,077	(440)	7,464	6,485	979
Other	1,179	1,059	120	3,834	3,794	40
	11,715	11,219	496	48,005	43,853	4,152
Expenses						
Salaries and benefits	3,140	3,093	(47)	11,983	11,735	(248)
Operations, maintenance, and administration	3,434	3,799	365	11,929	11,393	(536)
Amortization of property, plant and equipment	2,321	2,044	(277)	8,134	8,177	43
Bulk water purchases	1,663	1,561	(102)	7,474	6,419	(1,055)
Saskatchewan taxes	128	102	(26)	648	641	(7)
	10,686	10,599	(87)	40,168	38,365	(1,803)
Operating income	1,029	620	409	7,837	5,488	2,349
Finance income	234	606	(372)	1,383	1,895	(512)
Finance expense	(390)	(439)	49	(2,795)	(1,898)	(897)
Net finance income (expense) (Note 5)	(156)	167	(323)	(1,412)	(3)	(1,409)
Net income (loss)	\$ 873	\$ 787	\$ 86	\$ 6,425	\$ 5,485	\$ 940
Other comprehensive income (loss)	16	(18)	34	16	(18)	34
Total comprehensive income (loss)	\$ 889	\$ 769	\$ 120	\$ 6,441	\$ 5,467	\$ 974

Saskatchewan Water Corporation

Statement of Retained Earnings

(unaudited - thousands of dollars)

	Three months ended December 31			Twelve months ended December 31		
	Actual 2015	Actual 2014	Variance	Actual 2015	Actual 2014	Variance
Retained Earnings						
Retained Earnings, beginning of period	\$ 46,910	\$ 41,732	\$ 5,177	\$ 42,501	\$ 37,034	\$ 5,467
Total comprehensive income for the period	889	769	120	6,441	5,467	974
Dividends	(596)	-	(596)	(1,739)	-	(1,739)
Retained Earnings, end of period	\$ 47,203	\$ 42,501	\$ 4,701	\$ 47,203	\$ 42,501	\$ 4,702

Saskatchewan Water Corporation

Statement of Cash Flows

(unaudited - thousands of dollars)

	Three months ended		Twelve months ended	
	December 31	December 31	December 31	December 31
	2015	2014	2015	2014
Operating activities				
Net income	\$ 873	\$ 787	\$ 6,425	\$ 5,485
Items not affecting cash from operations:				
Amortization of property, plant and equipment	2,321	2,044	8,134	8,177
Impairment of assets	-	49	-	85
Amortization of deferred revenue	(1,062)	(795)	(3,271)	(3,178)
Amortization of provisions - onerous contracts	(6)	45	(187)	(130)
Employee benefits	32	10	32	10
Net financing (income) expense	156	(167)	1,412	3
Loss (gain) on disposal of property, plant and equipment	55	(195)	42	(244)
Change in non-cash working capital items:				
Trade and other receivables	11,892	(15,981)	19,579	(7,947)
Prepaid expenses and inventories	(299)	(70)	(345)	213
Trade and other payables	(1,097)	9,852	(11,672)	8,097
Infrastructure deposits	(5,109)	3,492	(11,870)	16,212
Deferred revenue	5,225	31,928	32,937	70,943
Interest paid	(437)	(442)	(1,817)	(1,844)
Interest received	2	9	12	18
Cash provided by operating activities	12,546	30,566	39,411	95,900
Investing activities				
Property, plant and equipment expenditures	(11,051)	(39,262)	(45,901)	(81,177)
Proceeds on disposal of property, plant and equipment	154	420	224	514
Cash used in investing activities	(10,897)	(38,842)	(45,677)	(80,663)
Financing activities				
Proceeds from long-term debt	2,407	-	2,407	-
Proceeds from (Repayments of) notes payable	(1,100)	5,037	2,891	(5,113)
Repayment of long-term debt	(2,407)	-	(2,407)	-
Debt retirement fund installments	(522)	(863)	(1,161)	(2,609)
Debt retirement fund Redemptions	2,224	-	2,224	-
Dividends paid	(481)	-	(1,143)	-
Equity Contributions	-	-	-	-
Cash provided by financing activities	121	4,174	2,811	(7,722)
Change in Cash	1,770	(4,102)	(3,455)	7,515
Cash, Beginning of Period	6,522	15,849	11,747	4,232
Cash, End of Period	\$ 8,292	\$ 11,747	\$ 8,292	\$ 11,747

Saskatchewan Water Corporation

Notes to the Financial Statements - unaudited

December 31, 2015

1. General Information

The Saskatchewan Water Corporation (the Corporation) is a corporation located in Canada. The address of the Corporation's registered office and principal place of business is 200-111 Fairford Street East, Moose Jaw, SK, S6H 1C8.

The Corporation was established on July 1, 1984 under the authority of The Water Corporation Act which remained in effect until December 31, 2002. On October 1, 2002 The Saskatchewan Water Corporation Act was proclaimed.

By virtue of *The Crown Corporations Act, 1993*, the Corporation has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of the Corporation are included in the consolidated financial statements of CIC, a Provincial Crown corporation. As the Corporation is a Provincial Crown corporation, it is not subject to Federal or Provincial income taxes in Canada, but is subject to Provincial corporate capital tax.

The principal activity of the Corporation is to construct, acquire, manage or operate works and to provide services in accordance with any agreements that it enters into pursuant to *The Saskatchewan Water Corporation Act*.

2. Basis of Preparation

Statement of compliance

These condensed interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 - *Interim Financial Reporting* and accordingly do not include all of the information required for full annual financial statements.

The condensed interim financial statements were authorized for issue by the Board of Directors on February 25, 2016.

Interim measurement

SaskWater's sales to municipal customers are seasonal, with the second and third quarters being the strongest periods, reflecting hotter weather and higher outdoor water usage.

Basis of measurement

The condensed interim financial statements have been prepared on the historical cost basis except for the following:

- Financial instruments that are accounted for at fair value through profit and loss.
- Provisions.
- Employee benefit obligations.

Functional and presentation currency

These financial statements are presented in Canadian Dollars, which is the Corporation's functional currency.

Saskatchewan Water Corporation

Notes to the Financial Statements - unaudited

December 31, 2015

2. Basis of Preparation (continued)

Use of estimates and judgments

The preparation of these condensed interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas of estimation uncertainty and critical judgments in applying accounting policies are:

- Valuation of trade and other receivables
- Underlying estimates of useful lives and amortization of property, plant and equipment
- Underlying estimates of deferred revenue and infrastructure deposits
- Carrying amounts of provisions and underlying estimates of future cash flows
- Carrying amounts of employee benefits and underlying actuarial assumptions
- Underlying estimates for future commitments and contingencies

Change of year end

The Corporation has been directed to change its fiscal year end to March 31 to coincide with that of its owner. The first complete fiscal period will consist of fifteen (15) months ending March 31, 2016. Information included in these financial statements represent the first twelve (12) months of the current fiscal period as compared to the twelve (12) month period ending December 31, 2014.

3. Significant Accounting Policies

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those disclosed in the corporation's December 31, 2014 audited financial statements.

The accounting policies have been applied consistently to all periods presented in these condensed interim financial statements.

New standards and amendments to standards

The following new standards, and amendments to standards, effective for annual periods beginning on or after January 1, 2015, have been applied in preparing these condensed financial statements:

- IFRS 13 *Fair value measurement*
- IAS 16 *Property, plant and equipment*
- IAS 24 *Related party disclosures*

The adoption of these amended standards had no impact on the condensed financial statements.

Saskatchewan Water Corporation

Notes to the Financial Statements - unaudited

December 31, 2015

3. Significant Accounting Policies (continued)

New standards and interpretations not yet adopted

The following new and amended standards are not yet effective and have not been applied in preparing these financial statements:

IFRS 9, *Financial Instruments* - replaces IAS 39 *Financial Instruments: Recognition and Measurement*. This Standard is effective for annual periods beginning on or after January 1, 2018.

IFRS 15 *Revenue from Contracts with Customers* - clarifies the principles for recognizing revenue from contracts with customers and will affect certain of the Corporation's accounting policies upon its effective date. This standard was effective for annual periods beginning on or after January 1, 2017; however on September 11, 2015 the IASB confirmed the one-year deferral of the effective date.

The Corporation is continuing to review the new and amended standards and has not yet determined the impact on its condensed financial statements.

Saskatchewan Water Corporation

Notes to the Financial Statements - unaudited

December 31, 2015

4. Revenue

	Three months ended December 31		Year ended December 31	
	2015	2014	2015	2014
	(Thousands)		(Thousands)	
Water sales and treatment				
Potable water supply	\$ 3,970	\$ 3,575	\$ 17,847	\$ 16,322
Non-Potable water supply	4,779	4,349	18,215	16,601
Wastewater treatment	150	159	645	651
	<u>8,899</u>	<u>8,083</u>	<u>36,707</u>	<u>33,574</u>
Services				
Certified operations & maintenance	387	392	1,586	1,546
Project management	933	1,338	4,595	3,608
Northern project management	140	148	564	593
Operator training	174	197	701	719
Leak detection	3	2	18	19
	<u>1,637</u>	<u>2,077</u>	<u>7,464</u>	<u>6,485</u>
Other				
Amortization of customer contributions	1,004	736	3,041	2,947
Amortization of government grants - capital related	57	57	228	229
Miscellaneous revenue	118	266	565	618
	<u>1,179</u>	<u>1,059</u>	<u>3,834</u>	<u>3,794</u>
	<u>\$ 11,715</u>	<u>\$ 11,219</u>	<u>\$ 48,005</u>	<u>\$ 43,853</u>

5. Finance income and expenses

	Three months ended December 31		Year ended December 31	
	2015	2014	2015	2014
	(Thousands)		(Thousands)	
Finance income				
Debt retirement fund earnings	\$ 20	\$ 213	\$ 938	\$ 647
Positive changes in fair value of debt retirement funds	212	384	434	1,229
Other finance income	2	9	11	19
	<u>234</u>	<u>606</u>	<u>1,383</u>	<u>1,895</u>
Finance expenses				
Interest expense on short-term debt	(47)	1	93	142
Interest expense on long-term debt	409	411	1,641	1,643
Negative changes in fair value of debt retirement funds	-	-	950	-
Unwinding of discount on provisions	27	27	108	110
Other interest expense	1	-	3	3
	<u>390</u>	<u>439</u>	<u>2,795</u>	<u>1,898</u>
Net finance expense	<u>\$ (156)</u>	<u>\$ 167</u>	<u>\$ (1,412)</u>	<u>\$ (3)</u>

Saskatchewan Water Corporation

Notes to the Financial Statements - unaudited

December 31, 2015

6. Equity Advance and Capital Disclosure

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

The Corporation's debt management plan is built on the goal of ensuring the capacity to meet long term obligations and ensuring financial health, while achieving the growth plans of the Corporation.

As a Crown corporation, SaskWater receives its long-term capital funding primarily from the Saskatchewan Ministry of Finance. SaskWater also has access to a \$30 million line of credit, extended by the Saskatchewan Ministry of Finance, which is used to manage short-term liquidity.

The Corporation's capital consists of notes payable, long-term debt and equity, less debt retirement funds.

The Corporation monitors capital on the basis of the debt ratio. The current long-term debt ratio target is 60%, which is consistent with the prior period. The debt ratio is calculated as net debt divided by end of period capitalization as follows:

	December 31, 2015	December 31, 2014
	(Thousands)	
Gross long-term debt	\$ 38,700	\$ 38,700
Notes payable	23,019	20,128
Debt retirement funds	(16,348)	(16,989)
Net debt	45,371	41,839
Total equity	55,903	51,201
Capitalization	\$ 101,274	\$ 93,040
Debt ratio	44.8%	45.0%

The Corporation has complied with all externally imposed restrictions on its debt for the period ended December 31, 2015.

Saskatchewan Water Corporation

Notes to the Financial Statements - unaudited

December 31, 2015

7. Commitments and Contingencies

a) Contractual commitments (Thousands)

As of December 31, 2015, the Corporation has outstanding commitments of \$14,765 (December 31, 2014 - \$44,775) for construction contracts and consulting agreements primarily relating to assets under construction and other service contracts.

b) Litigation

The Corporation has provided, in its accounts, for any known claims from lawsuits or other legal proceedings for which there is material risk of liability to the Corporation in accordance with management's best estimates and the advice received from legal counsel. The Corporation intends to account for any differences which may arise between amounts provided and amounts expended in the period in which the claims are resolved.

8. Financial instruments

a) Fair values

Fair values are the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values are estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgment and future-oriented information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

The following summarizes the classification, carrying amounts and fair values of the Corporation's financial instruments:

Classification ¹	December 31, 2015		December 31, 2014		
	Asset (Liability)		Asset (Liability)		
	Carrying Amount (Thousands)	Fair Value	Carrying Amount	Fair Value	
Financial assets					
Cash	FVTPL	\$ 8,292	\$ 8,292	\$ 11,747	\$ 11,747
Trade and other receivables	L&R	9,636	9,636	29,215	29,215
Debt retirement funds	FVTPL	16,348	16,348	16,989	16,989
Financial liabilities					
Trade and other payables	OL	10,240	10,240	21,913	21,913
Notes payable	OL	23,019	23,019	20,128	20,128
Dividends payable	OL	596	596	-	-
Infrastructure deposits	OL	7,229	7,229	19,099	19,099
Long-term debt	OL	38,700	40,633	38,700	43,300

¹Classification details are as follows:

FVTPL - Fair value through profit and loss

L&R - Loans and Receivables

OL - Other Liabilities

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Notes to the Financial Statements - unaudited

December 31, 2015

8. Financial instruments (continued)

The estimated fair values of these financial instruments have been determined based on the following methods and assumptions, and may not represent the amounts that could be realized upon settlement.

All long-term debt obligations are estimated using discounted cash flow analysis based on current market yields for similar arrangements (Level 2). Debt retirement funds are valued at closing period-end unit prices received from the Saskatchewan Ministry of Finance (Level 2).

b) Determination of fair values

When the carrying amount of a financial instrument is the most reasonable approximation of fair value, reference to market quotations and estimation techniques is not required. The carrying values of cash, trade and other receivables, trade and other payables and notes payable approximate their fair values due to the short-term maturity of these financial instruments.

For financial instruments listed below, fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. Accordingly, the determination of fair value requires judgment and is based on market information where available and appropriate. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of the inputs used in the valuation.

Level 1 – Where quoted prices are readily available from an active market.

Level 2 – Valuation model not using quoted prices, but still using predominantly observable market inputs, such as market interest rates.

	December 31, 2015		December 31, 2014	
	Level 1	Level 2	Level 1	Level 2
	(Thousands)			
Debt retirement funds	\$ -	\$ 16,348	\$ -	\$ 16,989
Long-term debt	\$ -	\$ 40,633	\$ -	\$ 43,300